

**RESPONSE TO ARTICLE PUBLISHED BY THE EDGE SINGAPORE**

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**1. Introduction**

The board of directors (the "**Board**") of Hwa Hong Corporation Limited (the "**Company**") refers to the article published online by The Edge Singapore on 14 July 2022 entitled "Hwa Hong's IFA says competing offer should consider higher fees" (the "**Article**").

*Capitalised terms used herein, but not otherwise defined, shall have the meanings ascribed to them in the offeree circular ("**Circular**") issued by the Company dated 14 June 2022 in relation to the Offer by Sanjuro United Pte. Ltd. ("**Sanjuro Offer**") for the Company.*

**2. Response to Statements in the Article**

The Board would like to respond to the following statements made in the Article, which contain several inaccuracies, as follows:

- (a) *"SIC has said it requires that each potential competing offer must announce a firm intention to make an offer by 5.00 p.m. on July 25, being the business day immediately following the 53rd day from the date of the offeror's despatch of its offer document."*

As stated in the Company's announcement of 8 July 2022, the SIC has required that each potential competing offeror must by 5.00 p.m. on 25 July 2022 **either**:

- (i) announce a firm intention to make an offer for the Company; **or**
- (ii) confirm to the Board that it does not intend to make an offer for the Company, in which case the Board must announce that fact by the earlier of (i) the date on which all potential competing offerors have confirmed that they do not intend to make an offer for the Company and (ii) 5.00 p.m. on 25 July 2022.
- (b) *"According to the offer circular, Evercore is likely to be paid on a success basis should it obtain a better offer for shareholders and the fees involved are likely to have a negative impact on the current 40 cents offer price."*

The Board wishes to clarify that under the terms of Evercore's appointment, success fees (the "**FA Fees**") are payable to Evercore in the event the Sanjuro Offer or any competing offer is declared unconditional as to acceptances.

Shareholders should note the following:

- (i) the Circular did not state that the FA Fees would or are likely to have a negative impact on the Revised Offer Price;

- (ii) as stated in paragraph 10(a) of Appendix II to the Circular, all expenses and costs incurred by the Company in relation to the Sanjuro Offer will be borne by the Company; and
  - (iii) based on the terms of the Sanjuro Offer, the Revised Offer Price will not be adjusted for the FA Fees payable by the Company to Evercore. Based on the terms of the Sanjuro Offer, Shareholders who tender their Shares in acceptance of the Sanjuro Offer will be entitled to receive the Revised Offer Price of S\$0.40 per Share in full without any adjustment for the FA Fees, as the FA Fees will be borne by the Company.
- (c) *"The IFA stated in the offer circular: "As a result of the fees involved, IFA has indicated that estimated Adjusted RNAV of the Group as at 31 December 2021 will need to be reduced by up to approximately \$0.0148 per share. Hence, any potential bidder looking to come up with an offer price will need to take into consideration the fees." Based on the arithmetic, any competing offer would need to be above 41.5 cents to make sense to shareholders."*

The IFA did not make the quoted statement in the IFA Letter. Whilst the IFA had noted that the payment of the estimated expenses (which include the FA Fees) may result in the reduction of the estimated Adjusted RNAV of the Group as at 31 December 2021 by up to approximately S\$0.0148 per Share, the IFA had stated clearly in paragraph 7.3.2 of the IFA Letter that it had used the Adjusted RNAV per Share of S\$0.5052 as at 31 December 2021 (before taking into account the estimated expenses, which include the FA Fees) for the purposes of evaluating the financial terms of the Sanjuro Offer. The relevant portions of paragraph 7.3.2 of the IFA Letter are extracted and reproduced below:

*"We note that in the event the Offer becomes unconditional in all respects and the above estimated expenses of not more than S\$9.66 million are incurred, such expenses may have a material and adverse impact on the financial performance of the Group for the current year, FY2022, and on the above estimated Adjusted RNAV of the Group as at 31 December 2021 by a reduction of up to approximately S\$0.0148 per Share.*

*For the purposes of our evaluation of the financial terms of the Offer, we have used the Adjusted RNAV per Share of S\$0.5052 as at 31 December 2021 before taking into account the above estimated expenses as the full amount of these expenses have not been confirmed as at the Latest Practicable Date."*

Further, the IFA did not state or suggest in the IFA Letter that any potential competing offeror would need to take into consideration the FA Fees in determining its offer price for the Shares.

As explained in paragraph (b) above, the offer price per Share under the Sanjuro Offer or any competing offer would not be adjusted for the FA Fees, as the FA Fees would be borne by the Company. In other words, the FA Fees have no impact on the offer price to be received by Shareholders under the Sanjuro Offer or any competing offer (based on the terms of the Sanjuro Offer and assuming that a competing offer would be on similar terms save for the offer price).

In view of the foregoing, it is incorrect to state that "*any competing offer would need to be above 41.5 cents to make sense to shareholders*". Any competing offer at a price that is higher than the Revised Offer Price of S\$0.40 per Share would be an improvement in value for Shareholders and therefore a better offer than the Sanjuro Offer. In other words, a competing offer need not be above 41.5 cents to make sense to Shareholders.

- (d) *"The circular adds that the total fees can only be determined at the close of the transaction because of the success fees to Evercore in the event of a competing offer."*

As stated above, under the terms of Evercore's appointment, the FA Fees become payable to Evercore in the event the Sanjuro Offer or any competing offer is declared unconditional as to acceptances.

### 3. Additional information on the FA Fees

- 3.1 The Current Ong Directors would like to provide the following additional information on the FA Fees:

Under the terms of Evercore's appointment, based on the final offer price for an offer (including the Sanjuro Offer) for the Company which has turned unconditional as to acceptances under the Code, the FA Fees would be payable in respect of the aggregate value of all consideration (whether attributable to cash or securities-based consideration) received by Shareholders (whether pursuant to (i) acceptances, including (in the case of the Sanjuro Offer) acceptances by Shareholders who are concert parties of the Offeror pursuant to the Consortium Irrevocable Undertakings and the Additional Irrevocable Undertaking or (ii) market disposals to the relevant offeror) (the "**Consideration**"). The fee structure was intended to create a level playing field for all bidders and differentiating fee structures would have created an unfair advantage for the Offeror. The fee structure could not be designed to create an advantage to one bidder over another, or in this case to the Offeror versus any other potential interested party.

As announced by the Offeror on 5 July 2022, the Offeror does not intend to revise the final offer price of S\$0.40 in cash for each Offer Share (including in a competitive situation). Based on such final offer price and the premise that the Sanjuro Offer becomes unconditional as to acceptances under the Code, the FA Fees payable by the Company to Evercore would be 3.0% of the Consideration. If any offer becomes unconditional as to acceptances where the offer price per Share is below S\$0.40, the FA Fees would comprise 2.5% of the Consideration. If any offer becomes unconditional as to acceptances where the offer price per Share is equal to or exceeds S\$0.40 but less than S\$0.50, the FA Fees would comprise 3.0% of the Consideration, and only increase to 4.0% of the Consideration if the offer price per Share is equal to or exceeds S\$0.50.

The actual amount of the FA Fees payable by the Company to Evercore will depend on the aggregate value of the Consideration received by Shareholders from the relevant offeror as at the close of the relevant offer. In the case of the Sanjuro Offer, based on the Revised Offer Price of S\$0.40 per Share, the FA Fees will range from approximately S\$4.2 million to S\$8.4 million (in each case, including GST) and if a competing offer emerges between S\$0.40 and S\$0.50, the range of FA Fees would be correspondingly adjusted.

**No fees (whether in the form of FA Fees or otherwise) are payable to Evercore if the Sanjuro Offer or any competing offer does not become unconditional as to acceptances. There is no monthly retainer fee payable to Evercore.**

- 3.2 As stated in paragraph 7.3.2 of the IFA Letter, in the event the Sanjuro Offer becomes unconditional and the estimated expenses and costs in respect of the Sanjuro Offer or any competing offer are incurred, such expenses may have a material and adverse impact on the financial performance of the Group for the current financial year ending 31 December 2022, and on the estimated Adjusted RNAV of the Group as at 31 December 2021 by a reduction of up to approximately S\$0.0148 per Share.

**Shareholders and their advisers should consider carefully the above, the Circular (including the recommendation of the Recommending Directors and the IFA Letter) in its entirety and all other announcements made by the Company from time to time before deciding whether to accept or reject the Sanjuro Offer.**

#### **4. Basis for the FA Fees**

The Current Ong Directors would like to further explain certain aspects of the FA Fees as follows:

- (a) The FA Fees are purely success based and accordingly, such fees are not due and payable to Evercore if the Sanjuro Offer or any other competing offer does not turn unconditional, which was and remains a possibility. The key trigger for the FA Fees payment is any offer for the Company becoming unconditional. On this basis, Evercore would be incentivised to work towards outcomes resulting in any offer (including the Sanjuro Offer) turning unconditional.
- (b) Based on the Original Offer Price, the Current Ong Directors, who are themselves Shareholders, believed that the likelihood of the Sanjuro Offer becoming unconditional as to acceptances was remote, as the Original Offer Price did not in their view represent a fair and reasonable valuation of the Company. This is supported by the fact that:
  - (i) the Original Offer Price of S\$0.37 per Share falls outside of the IFA's estimated value range of between S\$0.40 and S\$0.43 per Share, and as such would have been inadequate and incapable of being recommended to Shareholders; and
  - (ii) the Sanjuro Offer was unlikely to receive the necessary level of acceptances given the shareholding structure of the Company, as at the point of Evercore's appointment, the Offeror and its concert parties owned and controlled only 24.38% of the Shares, while 34.57% of the Shares were held in public hands, with the remaining 29.26% of the Shares held by the Current Ong Directors and their immediate family members (whose views were that the Original Offer Price did not represent a fair and reasonable valuation of the Company).
- (c) Evercore was therefore mandated to conduct the Exercise on behalf of the Company to ensure that, notwithstanding the constraints of the Sanjuro Offer timetable, any liquidity event (such as a general offer) would provide Shareholders with the

opportunity to optimise the value realised from any disposal of their Shares, either pursuant to a competing offer for the Company or an improvement in the Original Offer Price. On 7 June 2022, the Offeror announced the revision of the Original Offer Price from S\$0.37 per Offer Share to S\$0.40 per Offer Share (the Revised Offer Price), which represents an approximately 8.11% increase in the Offer Price – a demonstrable improvement for all Shareholders relative to the Original Offer Price.

- (d) The Current Ong Directors believe that the competitive tension generated from the announcement of Evercore as the Company's financial adviser and Evercore commencing a targeted and intensive Exercise were the key considerations which caused the share price of the Company to trade beyond the Original Offer Price, which in turn created the impetus for an increase in the Original Offer Price from S\$0.37 per Share to S\$0.40 per Share.
- (e) The Current Ong Directors understand that the FA Fees are generally in line with rates charged by peer banks of Evercore's standing and, in the absence of any retainer fee, were intended to provide some possibility of recompense for the significant time and resource commitment required of a financial adviser undertaking a strategic review, working up the Sanjuro Offer to maximise shareholder value and concurrently running an extensive sell-side process in a compressed manner within the constraints of an offer timetable. Alternative fee structures considered, include a minimum flat fee and/or monthly retainer, payable in each case even if no offer became unconditional, or all offers lapse or are withdrawn (as the Current Ong Directors understand is the case with fees charged by other financial advisers in respect of similar transactions). However, the Current Ong Directors are of the view that the chosen fee structure appropriately incentivises its financial adviser to ensure that Shareholders retain the optionality of exiting in a liquidity event but under circumstances where the possibility of alternative, competing proposals has been properly explored.

As stated in the Company's clarification announcement dated 25 May 2022, Mr Huang Yuan Chiang (a non-executive non-independent director of the Company) was not involved in and does not agree to the appointment of Evercore as the Company's financial adviser.

## **5. Directors' Responsibility Statement**

The Directors of the Company (including those who may have delegated detailed supervision of this announcement) have taken all reasonable care to ensure that the facts stated and all opinions expressed in this announcement (other than those relating to the Offeror and the Sanjuro Offer) are fair and accurate, that no material facts have been omitted from this announcement, and they jointly and severally accept responsibility accordingly. Where any information has been extracted or reproduced from published or otherwise publicly available sources (including, without limitation, the Article, the Offer Announcement, the Offer Document, and any other announcements made by or on behalf of the Offeror), the sole responsibility of the Directors of the Company has been to ensure through reasonable enquiries that such information is accurately and correctly extracted from such sources or, as the case may be, accurately reflected or reproduced in this announcement.

By Order of the Board

Ong Eng Loke  
Acting Group Managing Director  
19 July 2022